ELIZABETH WARREN, CHAIR
PAUL S. ATKINS
RICHARD H. NEIMAN
DAMON SILVERS
J. MARK McWATTERS

732 NORTH CAPITOL STREET, NW
ROOM C-320
WASHINGTON, DC 20401

Congress of the United States

CONGRESSIONAL OVERSIGHT PANEL

Opening Statement of J. Mark McWatters

Congressional Oversight Panel Hearing on GMAC Financial Services

February 25, 2010

Thank you Professor Warren.

I very much appreciate the attendance of the witnesses and I look forward to hearing their views.

On three separate occasions over the past fifteen months the American taxpayers have involuntarily "invested" approximately $17 billion in GMAC. Since the Congressional Budget Office (CBO) has assigned a 59 percent subsidy rate to the various auto-related bailouts—including GMAC--as of mid-December 2009,[1] it is not unreasonable to assume that the taxpayers will lose approximately $10 billion[2] of the $17 billion of TARP funds allocated to GMAC.[3]

Given the magnitude of these projected losses, three fundamental issues remain for our consideration.

First, prior to committing taxpayer resources to GMAC, Treasury was obligated to demonstrate that GMAC—and only GMAC--was capable of providing the auto finance services to both the retail customers and dealers of Chrysler and GM and that no other group of new or existing financial institutions could reasonably fill the void upon the liquidation of GMAC. It is not unreasonable to anticipate that many financial institutions and private equity firms would welcome the opportunity to extend credit to the retail customers and dealers of Chrysler and GM and to securitize the instruments received in such transactions. Even if GMAC—and GMAC

[1] See CBO "The Budget and Economic Outlook: Fiscal Years 2010 to 2020" at http://www.cbo.gov/ftpdocs/108xx/doc10871/01-26-Outlook.pdf, page 13. See also President's budget subsidy rates, Treasury section of Appendix (OMB, page 1019): http://www.whitehouse.gov/omb/budget/fy2011/assets/tre.pdf.

[2] $17 billion aggregate TARP allocation to GMAC multiplied by the CBO subsidy rate of 59 percent for the auto related bailouts.

[3] In order to add some perspective to the magnitude of this projected loss it is interesting to note that for fiscal year 2011 the National Institute of Health (NIH) has requested $765 million for breast cancer research [See NIH "Estimates of Funding for Various Research, Condition and Disease Categories (RCDC)" at http://report.nih.gov/rcdc/categories/], and the latest Nimitz-class aircraft carrier commissioned by the Navy cost approximately $4.5 billion [See "Information about the Ship," at http://up-www01.ffc.navy.mil/cvn77/static/aboutus/aboutship.html]. I you do the math, three questions arise. First, is the bailout of GMAC worth 13 years of breast cancer research? Second, is the bailout of GMAC worth two newly commissioned Nimitz-class aircraft carriers plus a formidable array of F-18 Super Hornet aircraft? Third, notwithstanding these comparisons, is the bailout of GMAC worth the addition of $10 billion to the federal budget deficit?

alone—possessed the expertise necessary to conduct an auto finance business, a question nevertheless arises as to why the United States government sanctioned and subsidized such monopolistic power instead of encouraging healthy competition from other private sector financial institutions seeking to enter the market.[4]

Second, if Treasury carries the burden on the first issue, Treasury must next demonstrate that it had no choice but to bail-out GMAC's ill-conceived bets in the sub-prime market in hopes of saving GMAC's auto finance business.[5] In satisfying this burden Treasury must show that no viable approach existed under the U.S. bankruptcy code or otherwise to extricate GMAC's auto finance business from the taint of its insolvent mortgage finance business other than through the expenditure of $17 billion of taxpayer funded resources. GMAC could have, for example (and without limitation), sold its auto finance business for fair market value to a third-party outside of bankruptcy or sold its auto finance business to a third-party under Section 363 in a bankruptcy proceeding. If GMAC's auto finance business is truly viable and profitable, it is not unreasonable to consider that other financial institutions and private equity firms would welcome the opportunity to acquire GMAC's auto finance business with its captive group of customers.

Third, even if GMAC carries the burden on both issues, Treasury must also demonstrate why GMAC was too big or too interconnected with the financial system and the overall economy to fail and why GMAC merited such unprecedented largess when so many other American businesses and families are suffering from the worst economic downturn in several generations.[6]

It is also troublesome that Treasury would commit the taxpayers to fund three rounds of bailouts for an institution that placed risky bets on the sub-prime market. Although GMAC faced bankruptcy and potential liquidation as the result of its ill-advised investments, the taxpayer funded bailouts of the company injected unwarranted moral hazard risk into the market and all but established the United States government as the implicit guarantor of any future losses arising from its casino-driven sub-prime lending activity. Such action will also encourage other

[4] By contrast, earlier this month the Administration announced that it plans to scrap the Ares I program and outsource low earth orbit rocket launches to a group of private sector aerospace companies [See "Obama Calls for End to NASA's Moon Program," The New York Times, February 1, 2010, at http://www.nytimes.com/2010/02/02/science/02nasa.html?scp=1&sq=constellation%20nasa&st=cse.] If private sector participants are lined-up around the block to bid for the right to design and launch rockets there must be at least a few financial institutions that are prepared to finance the retail customers and dealers of Chrysler and GM. Although auto finance is not rocket science you could not tell from the $17 billion price tag of the GMAC bailout.

[5] It appears that GMAC operates three businesses—a retail auto finance and dealer floor planning business, an insurance business and a mortgage finance business. The first business provides financing to retail purchasers of Chrysler and GM vehicles as well as to the dealers themselves. The second underwrites insurance. The third business placed huge un-hedged bets in the residential mortgage and subprime housing markets which blew-up and drove GMAC into insolvency.

[6] I am not convinced that Treasury has carried its burden in a clear and compelling manner regarding these issues. Any response or justification that is based upon the "special relationships" that exist between GMAC and its dealer network or the "unique IT systems" employed by GMAC to monitor its extensions of credit raises yet additional questions: What successful private sector business enterprise does not rely upon these factors and why should GMAC—and GMAC alone--merit $17 billion of taxpayer funds based upon its "relationships" or "IT systems"?

private sector participants to engage in less than prudent behavior confident in the expectation—if not an emerging sense of entitlement—that the taxpayers will yet again offer a bailout upon the reversal of their economic fortune. A market economy by necessity must cull the products and services of the weakest participants so that those who have developed innovative and competitive ideas may prosper on a level playing field. The opportunity for entrepreneurs to succeed or fail based upon their own acumen and judgment must survive the current recession and the implementation of the TARP program.

Thank you for joining us today and I look forward to our discussion.